KPMG

Transaction Advisory Services

Examination of Crown Sector External Investments

October 9, 2008

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PRIVATE & CONFIDENTIAL
Mr. Ron Styles
President and Chief Executive Officer
Crown Investments Corporation of Saskatchewan
400 – 2400 College Avenue
Regina SK S4P 1C8

October 9, 2008

Dear Mr. Styles

Examination of Crown Sector External Investments

We are pleased to enclose our report regarding the above mentioned matter. Should you have any questions with respect to this report, or should you require any further information, please do not hesitate to contact the undersigned.

Yours truly,

KPMG LLP

Chartered Accountants

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1.0 Mandate

1.1 Description of Engagement

We have completed our engagement with Crown Investments Corporation ("CIC") to carry out an examination of the out-of-province investments (the "Investments") made by Saskatchewan Power Corporation (SaskPower), SaskEnergy Incorporated (SaskEnergy), Saskatchewan Telecommunications Holding Corporation (SaskTel) and Saskatchewan Government Insurance (SGI CANADA) (collectively, the "Subsidiaries"). The purpose of this report is to summarize the scope of work undertaken and our overall findings related thereto.

1.2 Scope of Review

The scope of our engagement included:

- Identification of investments:
  - Through a process of inquiry and review, including interviews with current management of the Subsidiaries and CIC, complete an inventory of investments, including a description of the nature of the business. Appendix 1 contains the list of investments that were subject to our review.
- Identify and document financial goals at time of investment and assess financial performance achieved against identified goals.
- Benchmark investment performance against relevant industry or other comparable data, if available.
- Strategic goals at time of investment:
  - Identify and document strategic goals at the time of investment.
  - Assess achievement of the strategic goals.
  - Identify whether the strategic goals have changed or whether they are still relevant.
- Impact on the relevant Subsidiaries' operations in Saskatchewan:
  - Consider whether the investment supports, or is cross-subsidized by, the relevant Subsidiaries' sector core operations in Saskatchewan.
  - Consider whether the investment has contributed value, other than financial, to the relevant Subsidiaries' operations and subsequent investments.

The procedures we performed did not constitute an audit, examination or review in accordance with standards established by the Canadian Institute of Chartered Accountants ("CICA") and we have not

otherwise audited or attempted to verify the accuracy of the information we obtained and relied upon in preparing this report.

Because of its special nature, this report is not suited for any purpose other than to assist CIC in its evaluation of the Investments and KPMG does not accept any liability or responsibility to any third party who may use or place reliance on this report.

1.3 Project Team and KPMG Credentials

KPMG is one of the world's largest professional services firms, offering a broad range of services. This project was led by Peter Miller, Partner, Transaction Advisory Services. Other members of the project team included:

- Susan Glass, National Leader, Transaction Advisory Services;
- Tom Robinson, Regional Managing Partner, Saskatchewan; and
- Matthew Duncan, Vice President, KPMG Corporate Finance.

2.0 Summary of Approach

2.1 Overview

We reviewed a total of twenty-six Investments into which aggregate capital of approximately $465 million had or has been invested by the Subsidiaries. We utilized a common approach and framework in reviewing each of these Investments, which is summarized below.

2.2 Identifying and Documenting Initial Goals and Targets

Through a review of available and applicable background information, which included due diligence and other summary information prepared at the time of initial or follow-on investment, and discussion with management of the Subsidiaries, we developed an understanding of key financial and strategic goals at the time of the initial and, if applicable, subsequent follow-on investment in each of the Investments.

2.3 Assessing Actual Investment Performance

For all Investments, we held discussions with management of the Subsidiaries regarding achievement of initial strategic objectives, extent and economic impact of involvement of the respective Subsidiaries in the operations of the Investments and where available we obtained industry and other data against which actual results of the Investments were compared.

In terms of financial performance, the ideal method of evaluation and assessment would be to compare a realized internal rate of return ("IRR") to IRR targets established at the time of initial investment. Such comparison was possible for ten of the Investments which had been exited, by sale or by ceasing operations ("Exited"), on which realization proceeds were known and the resulting

actual IRR's could be calculated. For the remaining sixteen investments that had not been sold or otherwise exited ("Active"), actual IRR's could not be calculated. This limitation resulted in the use of other performance measures, such as implicit IRR's based upon notional business valuations, return on equity ("ROE") and return on investment ("ROI"), some of which lack explicit recognition of potential capital appreciation (or decline) that may have occurred in addition to actual rates of return based upon cash flow and earnings to date.

Accordingly, we utilized several techniques in analyzing financial performance on Active Investments in order to allow meaningful comparison of actual performance to initial expectations. These techniques included:

- comparison of historical average ROI or ROE, measured based on accounting book value or cost, to initial IRR targets;
- compared actual results achieved in terms of both operating performance and capital expenditures to projections utilized to drive initial IRR targets; and,
- when possible, in order to compensate for lack of an actual or realized IRR, we quantified an implicit or estimated IRR for certain of the Investments, based on management's notional valuation calculations, when such valuation calculations were available. This notional IRR effectively represents a proxy of what an actual IRR would have been had the Investment been exited at management's valuation. Where we used this technique, in all cases managements' valuations had been prepared in the ordinary course of business and not specifically for our mandate.

We then assessed each investment according to the following scale of actual financial performance compared to initial targets, categorized as:

- materially above (below) initial target includes Investments with actual rates of return performance exceeding (or falling short of) initial targets by greater than ten percentage points;
- above (below) initial target includes Investments with actual rates of return performance exceeding (or falling short of) initial targets by between two percent and ten percentage points; and,
- in line with initial target includes Investments with actual rates of return being within two percentage points above or below initial targets.

Due to the limitations involved in using a variety of different measures of actual returns, the overall weighted average actual returns should only be viewed as a general indication of overall financial performance of the Investments to-date.

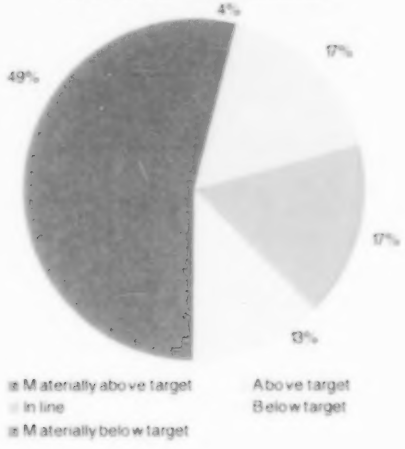
3.0 Summary of Key Findings

3.1 Achievement of Financial Goals

Key findings – overall performance (see Table 1, below):

- Approximately half of the Investments have performed materially below initial financial targets, driven primarily by the high proportion of total invested capital by SaskTel. Over sixty percent of the Investments have been below or materially below initial targets;
- Approximately twenty-one percent of the Investments have performed above or materially above initial financial targets; and,
- Approximately seventeen percent of the Investments have performed in line with initial financial targets.

Table 1: Financial performance to target (by # investments)



Key findings - by Subsidiary (see Tables 2 and 3, below):

- Overall financial rate of return performance on the Investments of three of the four Subsidiaries, comprising thirty-two percent of total out-of-province invested capital, has been in line with initial targets; and,
- Overall financial rate of return on the Investments of SaskTel weighted by invested capital, which comprises sixty-eight percent of total out-of-province invested capital of all of the Subsidiaries, has been materially below initial targets while SaskTel exited investments have yielded a 41.6% return due to the proceeds realized on the Leicester Cable Ltd. ("LCL") investment.

Table 2: Crown Sector Out-of-Province Investments - Summary

$000s	# of Investments	Total Invested Capital	Returned Capital	% Investments Achieving Stated Strategy		Rate of Return	
				Full	Partial	Target	Actual
Active investments							
SaskEnergy	4	63,709	750	50.0%	50.0%	13.8%	11.5%
SaskPower	1	23,865	13,710	100.0%	-	13.5%	13.6%
SaskTel active	5	154,766	12,824	60.0%	40.0%	23.8%	(43.8)%
SGI [2]	6	61,738	5,476	83.3%	-	12.0%	13.3%
Total/weighted avg-Active	***16***	***304,078***	***32,760***	***68.8%***	***25.0%***	***18.9%***	***(17.5)%***
Exited investments	-	-	-	-	-	-	-
SaskTel – LCL exited	1	36,472	137,337	100.0%	-	24.0%	80.7%
SaskTel - other exited [1]	9	124,655	75,439	11.1%	33.3%	27.9%	(18.6)%
Total exited investments **[1]**	***10***	***161,127***	***212,776***	***20.0%***	***30.0%***	***27.0%***	***41.6%***
Excluding SaskTel	-	-	-	-	-	-	-
Total/weighted avg	***11***	***149,312***	***19,936***	***72.7%***	***18.2%***	***13.2%***	***12.5%***
All investments	-	-	-	-	-	-	-
Total/weighted avg-All	***26***	***465,204***	***245,535***	***50.0%***	***26.9%***	***21.9%***	***(15.1)%***

Note 1: These actual rates of return represent portfolio returns, not weighted average returns.
Note 2: Achievement of strategic objectives for the SCISL Alberta investment was not determinable at this time.

Table 3: SaskTel Summary of Exited Investments

$000s	Invested Capital	Returned Capital	Stated Strategy Achieved (Y/N/Partial/ND)	Rate of Return Target [IRR]	Rate of Return Actual [IRR]	Cash on Cash Return
Alouette	8,392	14,460	Partial	*7.4%*	*9.7%*	1.7x
Other investments [1]	**8,392**	**14,460**		***7.4%***	***9.7%***	**1.7x**
Austar	39,234	45,156	Y	*19.0%*	*4.2%*	1.2x
Craig Wireless	10,000	-	N	*22.0%*	*(91.9)%*	0.0x
LCL	36,472	137,337	Y	*24.0%*	*80.7%*	3.8x
NST	16,030	190	N	*61.0%*	*(98.3)%*	0.0x
Persona	11,188	13,230	Partial	*12.0%*	*2.7%*	1.2x
Facilities-based market expansion investments [1]	**112,924**	**195,913**		***26.1%***	***55.6%***	**1.7x**
IQ&A	2,048	260	N	*41.0%*	*(93.1)%*	0.1x
Retx	24,724	239	N	*35.5%*	*(66.8)%*	0.0x
Soft Tracks	5,685	85	N	*35.0%*	*(82.3)%*	0.0x
Streamlogics	7,354	1,819	Partial	*24.0%*	*(24.5)%*	0.2x
Hosting and internet applications investments [1]	**39,811**	**2,403**		***33.6%***	***(41.9)%***	**0.1x**
Total [1]	***161,127***	***212,776***		***27.0%***	***41.6%***	**1.3x**
Total, excluding LCL [1]	***124,655***	***75,439***		***27.9%***	***(18.6)%***	**0.6x**

Note 1: Target rates of return represent weighted average returns, while actual rates of return represent portfolio returns.

3.2 Achievement of Strategic Objectives

The types and nature of the strategic objectives stated for pursuing the Investments were as varied as the number of Investments. However, some common themes were:

- diversification of business risks;

- creating employment and career opportunities;
- knowledge development from operating in competitive markets outside of the province;
- knowledge development of sectors for possible future expansion of service offerings; and
- synergy realization, such as cross selling opportunities, economies of scale with certain central costs, etc.

Based upon our scope of review we concluded that strategic objectives were substantially or partially achieved on over eighty percent of the Investments.

The graph in Table 4 and chart in Table 5, below, summarize, overall and by Subsidiary, the extent to which strategic objectives have been or are being achieved.

Table 4: Overall achievement of strategic goals

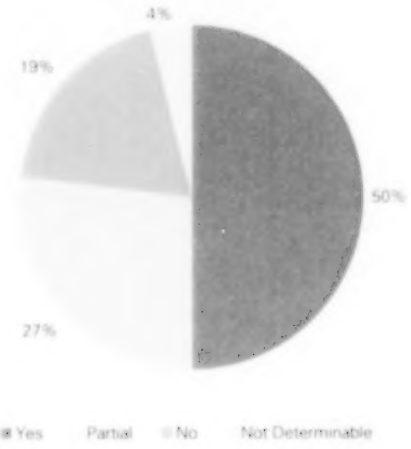


Table 5: Achievement of strategic goals, by Subsidiary

	Achievement of stated strategic goals				
	Yes	**Partial**	**No**	**Not Determinable**	**# of Investments**
SaskEnergy	2	2	-	-	4
SaskPower	1	-	-	-	1
SaskTel	5	5	5	-	15
SGI	5	-	-	1	6
Total	**13**	**7**	**5**	**1**	**26**

3.3 Cross Subsidization

Based upon our scope of review we did not identify any cases of out-of-province Investments being directly cross-subsidized by the respective Subsidiaries' core operations in Saskatchewan. We did

note that, particularly in the case of SaskTel's underperforming Investments, an extensive amount of management and executive time was devoted to reporting on, managing and monitoring the Investments. However, it was not possible to quantify or assess the impact, if any, on core operations in Saskatchewan of this time being devoted to the Investments.

3.4 Intangible Value Contribution to Operations and Subsequent Investments

A common theme expressed by the management teams of the Subsidiaries was that an important intangible benefit of their out-of-province investing experience was the management learning and development that occurred.

4.0 Restrictions and Limitations

Our comments herein should not be construed as being an expression of our opinion or view as to the fair market value of any of the Investments as we were not engaged to provide, and have not performed the necessary procedures to render, such an opinion.

With CIC's approval and as provided for in the engagement agreement, KPMG has relied upon the completeness, accuracy and fair presentation of all of the financial and other information, data, advice, opinions or representations obtained by it from public sources and senior management of the Subsidiaries (collectively, the "Information"). Our findings are conditional upon the completeness, accuracy and fair presentation of such Information. Subject to the exercise of professional judgment, KPMG has not attempted to verify independently the completeness, accuracy or fair presentation of any of the Information. KPMG has further assumed that financial budgets provided to it and used in its analysis were prepared in good faith.

Senior officers of CIC and the Subsidiaries have represented to KPMG in certificates, amongst other things, that (i) the Information (as defined above) provided orally by, or in the presence of, officers of the Subsidiaries or in writing by the Subsidiaries to KPMG relating to the Investments for the purpose of preparing our findings was, at the date the Information was provided to KPMG, and is, except as has been disclosed in writing to KPMG, complete, true and correct in all material respects, and did not, and does not, contain any untrue statement of a material fact in respect of the Investments, and did not, and does not, omit to state a material fact in respect of the Investments necessary to make the Information not misleading in the light of circumstances under which the Information was made or provided; and that (ii) since the dates on which the Information was provided to KPMG, except as disclosed in writing to KPMG, or as publicly disclosed by the Subsidiaries, there has been no material change, financial or otherwise, in the financial condition, assets, liabilities (contingent or otherwise), business, operations or prospects of the Investments and no material change has occurred in the Information or any part thereof that would have, or that would reasonably be expected to have, a material effect on our findings.

Our findings are rendered on the basis of securities markets, economic, financial and general business conditions prevailing as at the date hereof and the condition and prospects, financial and otherwise, of the Investments, as they were reflected in the Information and as they have been represented to KPMG in discussions with management of the Subsidiaries.

Our findings have been provided for the use of the Board of Directors of CIC (the "Board") and may not be used by any person or relied upon by any person, other than the Board, without the express prior written consent of KPMG. Our findings are given as of the date hereof and KPMG disclaims any undertaking or obligation to advise any person of any change in any fact or matter affecting our findings that may come or be brought to KPMG's attention after the date hereof. Without limiting the foregoing, in the event that there is any material change in any fact or matter affecting our findings after the date hereof, KPMG reserves the right to change, modify or withdraw our findings.

KPMG believes that its analyses must be considered as a whole and that selecting portions of the analyses or the factors considered by it, without considering all facts and analyses together, could create a misleading view of the process underlying our findings. The preparation of our findings was a complex process and is not necessarily susceptible to partial analysis or summary description. Any attempt to do so could lead to undue emphasis on any particular factor or analysis.

APPENDIX 1 – Investments Under Examination

SaskEnergy Incorporated

Gas Sur S.A.

Integrated Gas Services de Mexico, S. de R.L. de C.V.

SaskEnergy Nova Scotia Holdings Ltd.

Swan Valley Gas Corporation

Saskatchewan Power Corporation

MRM Cogeneration Station

Saskatchewan Telecommunications Holding Corporation [1]

Ag Dealer Ltd.

Alouette Telecommunications Inc.

Austar United Communications Ltd. (formerly Saturn Communications Ltd.)

Manalta Investment Company Ltd. (formerly Craig Wireless International Inc.)

DirectWest Canada Inc.

Hospitality Network Canada Inc.

Information Queries & Analysis Partnership

Leicester Cable Ltd.

Navigata Communications Inc.

NST Network Services Inc.

Persona Inc. (formerly Regional Cablesystems Inc. (formerly Regional Cable TV (Western) Inc.))

Nokomis Holdings Inc. (formerly Nokomis Holding (U.S.) Inc. (formerly RETX, Inc.))

SecurTek Monitoring Solutions Inc.

Wild River Resources Ltd. & 675161 British Columbia Ltd. (formerly Soft Tracks Enterprises Ltd.)

Streamlogics Inc. (formerly TappedInto.com Inc.)

Saskatchewan Government Insurance

Coachman Insurance Company

Cooke Group, consisting of:

- Charlie Cooke Insurance Agency Ltd.
- Atlantic Adjusting and Appraisals Ltd.
- Maritime Finance and Acceptance Corporation

The Insurance Company of Prince Edward Island

Palliser Insurance Company Ltd.

SGI CANADA Insurance Services Ltd.(Alberta)

SGI CANADA Insurance Services Ltd.(Manitoba)

Note [1]: Saskatchewan Telecommunications International, Inc. ("STII") was initially reviewed to consider whether it had undertaken any material out-of-province investments. Other than STII's own consulting and technical services operations, management of SaskTel represented that STII has not invested in any material out-of-province entities.